



Important Tax Information About Payments From Your TSP Account

Amounts paid to you from your Thrift Savings Plan (TSP) account are taxable income to you for Federal income tax purposes in the year in which payment is made. Depending on the withdrawal method you choose, different withholding rules apply. For example, there is **mandatory 20% Federal income tax withholding on certain payments** unless you ask the TSP to transfer them to an Individual Retirement Arrangement (IRA) or other eligible retirement plan. To see how this applies to your TSP payment, **read this notice carefully**.

We are required by law to provide you with this notice; however, because tax rules are complex, you may wish to consult a tax advisor before you make any decision.

1. Tax Withholding

TSP payments made directly to you are subject to Federal income tax withholding. For withholding purposes, payments are classified as three types: **eligible rollover distributions**, **periodic payments**, and **non-periodic payments**. Federal income tax withholding rules are different for each type of payment, as described below. **The TSP does not withhold amounts for state or local income tax.**

Eligible Rollover Distributions

The following TSP payments are **eligible rollover distributions**:

- Single payment of the entire TSP account
- In-service withdrawal payment
- Automatic cashout payment (i.e., payout of an account that is \$3,500 or less)
- Monthly payments when the account is expected to be paid out in less than 10 years (except those computed by the TSP according to the IRS life expectancy table*). *See "Special Note About Monthly Payments" on page 3.*

*IRS Table V: Ordinary Life Annuities One Life — Expected Return Multiples, 26 CFR § 1.72-9

- A final single payment made after a series of monthly payments
- Amounts paid directly to you after the complete withdrawal of your TSP account (e.g., the payment of a late contribution to your account)
- Death benefits paid to the spouse of a deceased participant
- Court-ordered payments made to a spouse or former spouse

The following tax withholding rules apply to eligible rollover distributions:

- The tax withholding on all eligible rollover distributions of \$200 or more paid in a single year is 20%. **The 20% tax withholding cannot be waived**; however, you can request additional withholding. (See "Other Tax Withholding Information.") Note: The 20% is tax withholding, not actual tax paid. You may be entitled to a refund of a portion of this amount, or you may be required to pay an additional amount when you file your annual Federal income tax return.
- Before you receive an eligible rollover distribution, you can avoid withholding on all or any portion of it by asking the TSP to transfer that amount to an IRA or other eligible retirement plan. However, you **cannot** avoid the mandatory 20% withholding on any amount that you elect to receive directly, even if you then roll it over to an IRA or other eligible retirement plan. *(See Section 3 of this notice.)*
- You may elect to have an amount withheld in addition to the 20% withholding by completing Line 3 on IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments, and submitting it to the TSP Service Office at the address provided at the end of this notice. Line 1 and Line 2 are not valid elections for this type of payment.
- There is no withholding on eligible rollover distributions that are less than \$200. (The \$200 minimum amount applies to the total amount of all payments expected to be made

in a single tax year.) For example, if you are receiving an eligible rollover distribution that is a series of monthly payments expected to last less than 10 years, the \$200 minimum will apply only if the total of the payments expected to be made in one tax year (calendar year for most taxpayers) is less than \$200. However, you can still elect withholding for any eligible rollover distribution of less than \$200 by completing Line 3 on Form W-4P. Payments that are less than \$200 are also eligible to be transferred by the TSP or rolled over to an IRA or other eligible plan.

Periodic Payments

The following TSP payments are **periodic payments**:

- Monthly payments when the account is expected to be paid out in 10 years or more
- Monthly payments computed according to the IRS life expectancy table

(See “Special Note About Monthly Payments” on page 3.)

Withholding for periodic payments is based on the assumption that you are a married individual claiming three withholding allowances, unless the TSP Service Office receives from you Form W-4P, Withholding Certificate for Pension or Annuity Payments. Withholding will be calculated using the most current IRS Circular E or IRS Publication 15-A, Employer’s Supplemental Tax Guide. The IRS annually updates the instructions to Form W-4P to show the minimum periodic payment amounts on which there will be withholding.

If you submit Form W-4P, you may elect:

- to have no Federal income tax withheld by completing Line 1 on Form W-4P; or
- to have Federal income tax withheld based on the allowances and marital status that you indicate on Line 2 of Form W-4P. Withholding will then be computed using the tables referred to above; or
- to have an additional amount withheld by completing both Line 2 and Line 3 on Form W-4P. The amount that you specify on Line 3 will be added to the amount that would otherwise be withheld based on the election you made on Line 2.

Note: If you complete Line 2 or Line 3 on Form W-4P, you cannot also complete Line 1.

Your withholding election will remain in effect until the TSP Service Office receives a new Form W-4P from you. A new withholding election will be effective beginning with the first payment after the form is processed. You may change elections concerning your withholding as often as you wish. Additional copies of Form W-4P are available from your local IRS office or from the TSP Service Office.

Note: Payments you receive from an annuity that the TSP purchases for you are also periodic payments. You will receive information about making a withholding election from the annuity provider at the time your annuity is purchased.

Non-Periodic Payments

The following TSP payments are **non-periodic payments**:

- Required minimum distributions paid either separately or together with an eligible rollover distribution, a transfer, or a TSP annuity purchase. Minimum distribution payments must be made to you automatically when you are age 70 ½ or older and separated from Federal service.
- Minimum distribution payments are made to a participant who is also receiving a series of monthly payments. The first payments made during a year will be considered the minimum distribution payments for tax withholding purposes until the required minimum distribution amount for that year is reached. Subsequent payments will be treated as either eligible rollover distributions or periodic payments for tax withholding purposes, according to the rules stated above. If a payment is split between a minimum distribution and another type of payment, separate withholding will be applied to each part of the payment.
- Death benefits paid to someone other than the spouse of the participant.
- Court-ordered payments made to someone other than the spouse or former spouse, including court-ordered child support payments.

The TSP will withhold 10% for Federal income tax from these payments unless the TSP Service Office receives from you Form W-4P, Withholding Certificate for Pension or Annuity Payments.

If you submit Form W-4P, you may elect:

- to have no Federal income tax withheld, by completing Line 1 on Form W-4P; or
- to have an amount withheld in addition to the 10% by completing Line 3 on Form W-4P.

Note: You may not complete both Line 1 and Line 3 on Form W-4P. Line 2 on Form W-4P is not a valid election for this type of distribution.

Special Note About Monthly Payments

Monthly payments can be either **eligible rollover distributions** or **periodic payments**.

Monthly payments expected to be made for less than 10 years are treated as **eligible rollover distributions** and are subject to mandatory 20% withholding unless the total paid in one tax year is expected to be less than \$200 or unless payments are transferred as explained in Section 2 of this notice.

Monthly payments expected to be made for 10 or more years or calculated based on life expectancy using the IRS table are subject to withholding under the **periodic payment** rules.

Therefore, if you choose monthly payments, you should consider the category into which your payments will fall. The TSP will use the following rules in making this determination:

- **If you choose to have your payments based on life expectancy**, your payments will be treated as periodic, no matter how long they last. Payments are calculated based on the IRS life expectancy table.
- **If you choose to receive a number of monthly payments**, withholding will be based on the number you choose. If you choose 120 or more monthly payments, your payments will be treated as periodic because they will be paid out over 10 years or more. If you choose 119 or fewer monthly payments, your payments will be treated as eligible rollover distributions.
- **If you choose to receive payments of a certain dollar amount**, the TSP must use a formula to determine whether your payments are expected to last for 10 years or more. This formula takes into account the effect of future earnings (at an assumed annual earnings rate of 8%). The TSP will divide your account balance at the time payments begin by the dollar amount you choose. If the result is 85 or more, your payments will be treated as periodic. If the result is less than 85, your

payments will be treated as eligible rollover distributions.

- **If you change to a final single payment from a series of monthly payments**, that payment will be treated as an eligible rollover distribution.

Special Note for Nonresident Aliens and Beneficiaries of Nonresident Aliens

Special tax withholding rules apply to TSP payments made to nonresident aliens and beneficiaries of nonresident aliens. For a detailed explanation of how these rules apply to you, please read the TSP tax notice “Tax Treatment of Thrift Savings Plan Payments to Nonresident Aliens and Their Beneficiaries.” You can obtain a copy of the notice from the TSP Web site (www.tsp.gov) or by calling or writing the TSP Service Office.

A nonresident alien is an individual who is neither a citizen nor a resident of the United States. For purposes of residency, the United States includes the 50 states and the District of Columbia; it does not include U.S. possessions such as Guam, Puerto Rico, or the Virgin Islands.

Other Tax Withholding Information

You may request to waive tax withholding from a periodic or a non-periodic payment. You can do so by completing Line 1 on Form W-4P. If you submit Form W-4P with Line 1 completed and you subsequently decide you do not want to waive the tax withholding, you may revoke this decision by completing another Form W-4P and writing “Revoked” on Line 1 of the form. Taxes will then be withheld at the rate set by law.

If you do not have enough Federal income tax withheld from your payment, you may be responsible for paying estimated tax. You may also incur penalties under the IRS estimated tax rules if your withholding and estimated tax payments are not sufficient.

The TSP does not withhold for state, city, county, or other local income tax. Therefore, you should consult your tax advisor or relevant state or local taxing authorities regarding any potential tax obligations to them.

If you complete Line 3 on Form W-4P and the total amount of the withholding equals or exceeds the amount of your payment, your entire payment will be withheld.

2. Transferring or Rolling Over Your TSP Payment

A **transfer** occurs when you instruct the TSP to send all or part of your payment directly to an IRA or other eligible retirement plan instead of issuing it to you.

A **rollover** occurs when the TSP makes a distribution to you (which includes the amount of the check you receive plus the amount withheld) and you deposit any part of that distribution into an IRA or other eligible retirement plan within 60 days of the date you receive it.

If your payment is an **eligible rollover distribution** under the rules described in Section 1, all or any part of it can either be transferred or rolled over to an IRA or other eligible retirement plan. (Note: Distributions paid to spouses upon the death of a participant can be transferred or rolled over only to an IRA, not to another eligible retirement plan.)

An **eligible retirement plan** is: an IRA, which can be either an Individual Retirement Account or an Individual Retirement Annuity (other than an endowment contract); a qualified pension, profit-sharing, or stock bonus plan; or an annuity plan described in section 403(a) of the Internal Revenue Code. You cannot transfer or roll over your payment into a “Roth” IRA (which became available January 1, 1998).

By transferring or rolling an amount over to an IRA or other eligible retirement plan, you can postpone paying tax on that amount until you receive the money from the IRA or other eligible retirement plan. The mandatory 20% Federal income tax withholding does not apply to an amount that the TSP transfers directly to an IRA or other eligible retirement plan; **however, it does apply to any payment made directly to you, even if you then roll it over.**

In deciding whether to choose a transfer or a rollover, you should consider the following:

- You must pay Federal income tax and the 10% early withdrawal penalty, if applicable (*see Section 4 of this notice*), on any part of the payment that you do not transfer or roll over.
- Because all eligible rollover distributions of \$200 or more made directly to you are subject to mandatory 20% withholding, you will have to pay tax on the amount withheld — even

if you roll over the amount you receive — unless you deposit personal funds into your IRA or other plan equal to the amount withheld. (If you do this, you may receive a refund of taxes withheld, but you cannot wait until you receive a refund of withholding to complete a rollover.)

Therefore, if you do not want to use personal funds to make up the amount withheld, you should choose to have the TSP transfer your account to your IRA (or other plan) directly, instead of rolling it over to your IRA (or other plan) yourself.

If you choose to receive a series of monthly payments that is expected to last for less than 10 years, your decision whether to transfer all or any part of a payment will apply to all later payments in the series unless you change your election. You are free to change your election for any later payment in the series.

Whether you choose a transfer or a rollover, the following rules apply:

You may transfer or roll your payment over into any IRA (other than a “Roth” IRA). However, if you want to roll it into the qualified plan of another employer later on, you should instruct the financial institution to establish a “conduit” Individual Retirement Account for you. Such an account can only contain amounts that are transferred or rolled over. It cannot contain regular contributions (i.e., deductible or nondeductible contributions); Individual Retirement Accounts containing regular contributions cannot be rolled over into a plan maintained by another employer.

Amounts paid to you as a minimum distribution because you have reached age 70½, even if made with another TSP payment, may not be rolled over.

3. Tax Reporting

The TSP will report to the IRS all payments that are made directly to you as well as all transfers made to IRAs or other eligible retirement plans. We will also report TSP payments and transfers to the state in which our records show you resided at the time the payments were made, if that state imposes an income tax.

Annuity purchases are not reported by the TSP to the IRS or your state of residence. Payments made under an annuity that the TSP purchased for you will be reported by the annuity provider.

In January of the year that follows your TSP payment, the TSP will send you Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. **You should keep the TSP Service Office informed of any changes in your address until this tax information is sent to you.**

You should include the amount reported on Form 1099-R as income on your individual income tax returns for the year in which payments were made. However, you should then exclude from the adjusted gross income on your return amounts that were transferred or rolled over. If an amount was withheld for Federal income tax, you should also attach a copy of Form 1099-R to your Federal tax return.

4. Early Withdrawal Penalty

In addition to the ordinary income tax that you pay on TSP payments, in certain situations you must also pay an early withdrawal penalty tax of 10% on the total amount that you receive directly from the TSP (including any tax withholding), unless such payments are transferred or rolled over.

If you separate or retire before the year in which you reach age 55, the penalty tax will apply to all amounts that you receive before you become age 59 ½ (including a taxable loan distribution, if any). However, this rule does not apply in the following situations:

- The early withdrawal penalty tax is not imposed on annuity payments, payments made because of death, or payments made to participants who leave under disability retirement.
- If you choose to receive monthly payments by having the TSP compute your payments based upon the IRS life expectancy table, the payments will not be subject to the early withdrawal penalty tax, even if you separate or retire before the year in which you reach age 55. However, if you change from such payments to a final single payment, either before you become age 59 ½ or within five years of the date of the first payment, whichever is later, you will be liable for the penalty tax on **all** payments you have received before age 59 ½.

If you separate or retire during or after the year in which you reach age 55, any amounts you receive directly from the TSP after your separation or retirement will not be subject to the penalty tax. However, if you transfer or roll your

payment over to an IRA, the penalty tax applies to any payments you receive from the IRA before age 59 ½, even if you separated during or after the year in which you became age 55.

5. Additional Tax Information

Taxable Distribution of TSP Loan Due to Separation from Service

If you do not repay your entire TSP loan before receiving your withdrawal and a taxable distribution of your TSP loan is declared, you may want to elect additional withholding from other payments made to you in the same year to cover the tax you must pay on your loan distribution. If the taxable loan distribution is declared because you separated from Federal service, you can deposit any amount up to the amount of the distribution into an IRA or other eligible retirement plan, using your personal funds, and thereby avoid current tax (and the early withdrawal penalty, if applicable) on that amount.

Five-Year or 10-Year Tax Option

If the payment you receive from the TSP qualifies as an **eligible lump sum distribution**, you may be able to lower the income tax you pay by using the 5-year or 10-year tax option.

An **eligible lump sum distribution** is one in which your total TSP account balance is distributed to you within one tax year (the calendar year for most taxpayers), regardless of whether this occurs in one or more payments. This means that an eligible lump sum distribution can include amounts which the TSP distributes to you in a series of monthly payments, in a subsequent payment made after your initial withdrawal, or in a taxable loan distribution — as long as all amounts in your account are distributed to you in the same tax year. However, if you transfer or roll over all or any part of your distribution, you cannot use the 5-year or 10-year tax option.

At present, if you use the **5-year tax option**, your eligible lump sum distribution is taxed as if it were paid to you over five tax years, using the tax rates for single taxpayers in effect in the year payment is made. The 5-year tax option is available if you are at least 59 ½ at the time you receive your distribution. (In 1996, Congress eliminated the 5-year tax option for tax years beginning after December 31, 1999.)

With the **10-year tax option**, your eligible lump sum distribution is taxed as if it were paid to you over 10 tax years, but you must use the tax rates in

effect in 1986. The 10-year tax option is available only if you were age 50 before January 1, 1986.

The following rules apply to the 5-year or 10-year tax option:

- To qualify for either type of tax option, you must have been an **active participant** in the TSP for at least five years before the year in which your distribution is made. You are considered an active participant if a contribution was made to your TSP account by either you or your agency during a year.
- If you decide to use the 5-year or 10-year tax option for your TSP distribution, you must also use it for any eligible lump sum distribution, excluding IRAs, which you receive in the same tax year from any other plan maintained by an employer.
- You can use the 5-year or 10-year tax option only once in your lifetime. This means that if you use it in one tax year, you cannot use it for a distribution received from the TSP or another plan in any subsequent year.

Election of either the 5-year or 10-year tax option is made by filing IRS Form 4972, Tax on Lump Sum Distributions, with your annual income tax return.

6. TSP Service Office Information

If you have any questions regarding this notice, please contact the TSP Service Office at (504) 255-6000 (TDD: (504) 255-5113). If you choose to complete Form W-4P, Withholding Certificate for Pension or Annuity Payments, mail it to:

TSP Service Office
National Finance Center
P.O. Box 61500
New Orleans, LA 70161-1500.